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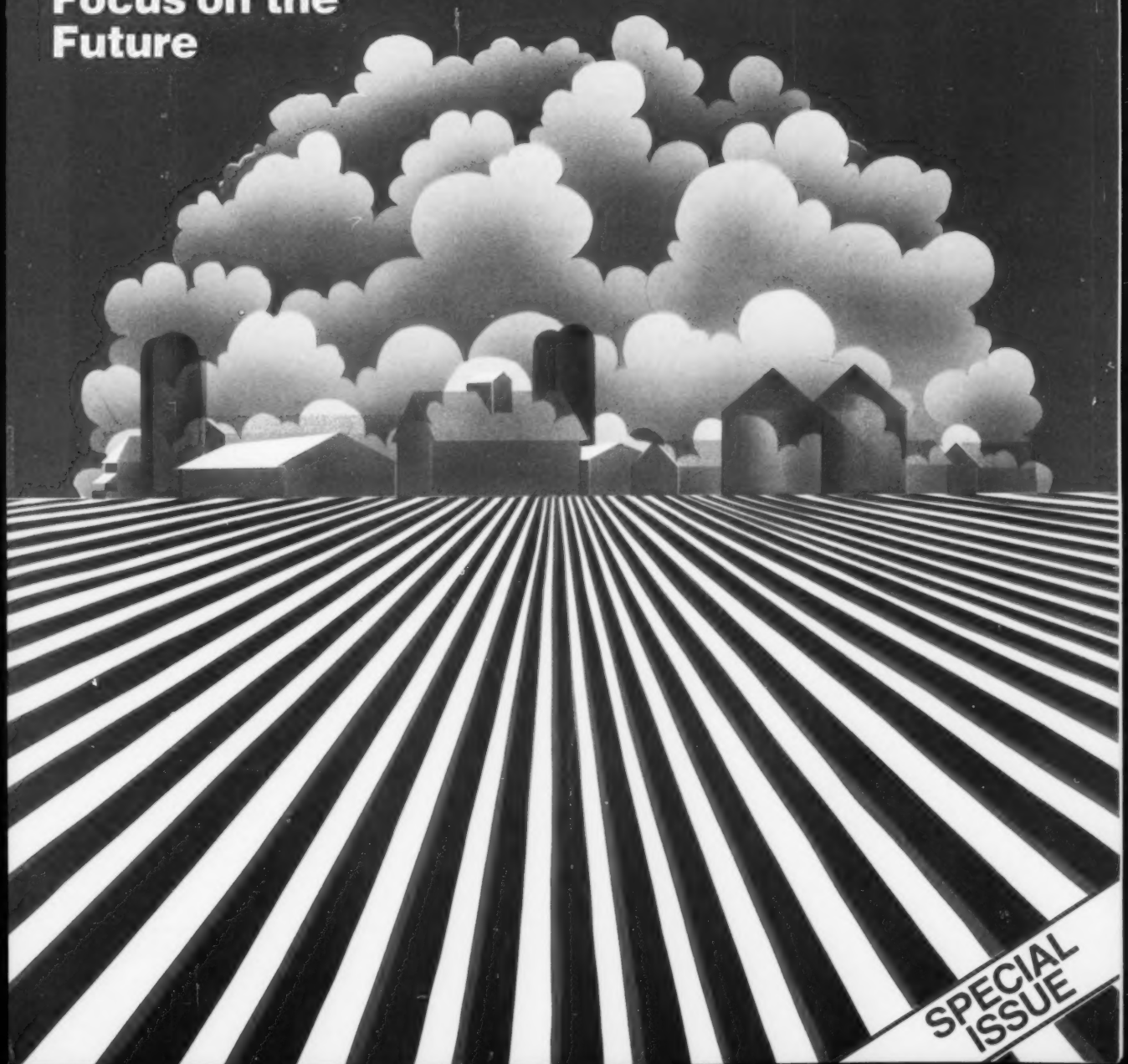
American Agriculture: Focus on the Future



SPECIAL ISSUE

Editor:
Eric Van Chantfort

Assistant Editor:
Bill Gordon

Editorial Assistant:
Martha R. Evans

(202) 447-8302

Design and Layout:
Joan Bazemore

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PERSPECTIVES

What can farmers expect now that the grain embargo has been lifted? The USSR has already purchased its limit for 1981, the last year in the 5-year agreement, so technically negotiations would have to precede any new purchases. USDA is preparing for such consultations, and options are being discussed for a possible renewed U.S.-USSR grain agreement.

Will the end of the embargo spur prices? Long-term improvement will depend on actual sales to the USSR this year and the negotiation of a new agreement. The initial price surge in anticipation of new sales has been weaker than expected, possibly because the grain markets had already been adjusting, while recent rain improved crop prospects and dampened prices. At the same time, importers seem to be waiting for lower harvesttime prices.

Are the Soviets still willing buyers? They'll need more grain this year--perhaps up to 5 million tons before fall--and the U.S. could be one of the sellers. However, the USSR diversified its supply sources during the sales suspension and probably won't rely as heavily on the U.S. for its grain imports.

The U.S. has the supplies . . . especially wheat. Stocks are ample, and USDA now forecasts a record winter wheat crop this year of 2.08 billion bushels. Corn supplies, too, could be enough to meet new demand from the Soviets. This year's plantings are about the same as last year and yields should be up if the weather permits. April 1 corn stocks of 101 million metric tons were also higher than had been expected after the drought last summer, though still 18 percent below last year.

Reduced feed usage helped keep supplies up. Livestock and poultry producers cut down on feed use this year as high feed costs squeezed returns and a mild winter kept up rates of gain, reducing the need for feed. Producers are expected to use about 4.1 billion bushels of corn in 1980/81--250 million fewer than estimated earlier.

Prices could be unstable next year if the trends that kept markets volatile continue. The high interest rates that have made producers reluctant to hold crop and livestock inventories should be here till late in 1981. If the dollar stays strong, that could lower exports as importing countries look elsewhere for less expensive goods. Foreign crops--especially in South America--look larger than had been expected. That's not a good sign for prices.

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U.S. farmers will have to boost output in the coming decades to help fill the expected gap between consumption and production in many countries. Already, the U.S. exports the production of one of every 3.5 acres planted.

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The Changing Farmscape: Fewer-but-Larger Farms by *Eric Van Chantfort* 18

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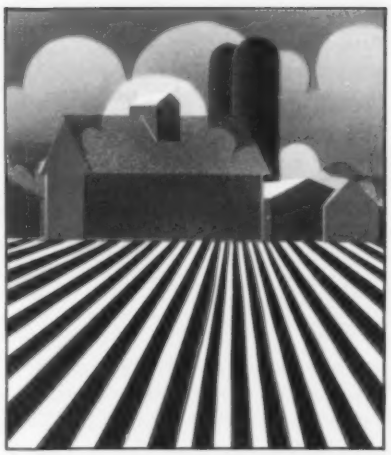

SPECIAL IN THIS ISSUE

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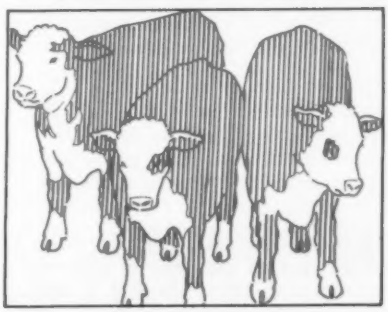
Save this at-a-glance guide to all crop and livestock reports. It's a quick source of publication dates and ordering information for the Crop Reporting Board's July-December 1981 releases.



What Lies Ahead for American Agriculture?

Deliberations over the new farm bill have focused attention on the dramatic changes that have affected U.S. agriculture in recent decades.

This special issue of FARMLINE focuses on the problems, prospects, opportunities, and decisions facing farmers and agricultural policymakers in years ahead. Its purpose is to share some of the thoughts of analysts on important trends in agriculture and where they may be leading.

The articles may alert you to possible opportunities or unwelcome developments relating to both your own farm business and your wider concerns about the future of farming.

However, any number of unanticipated domestic or foreign developments, changes in farm or economic policies, or unexpected global weather patterns might radically alter future prospects.

Thus, the outlook scenarios in this issue aren't ***predictions*** *of what will happen. Nor are they* ***recommendations*** *of what should happen. They are today's* ***projections*** *of what might occur if current trends continue or if a certain set of assumptions about the future prove accurate.*

To make room for these special articles, we have dropped some of our regular features, such as our "Farmline Trends" charts. We'll return to our normal format with the July issue.

Now that most of the idled acres of the past are back in production and growing world demand is testing America's capacity to produce, U.S. farmers face new problems and opportunities in the 1980's.

"Gone is the ever-pervasive burden of chronically excessive supplies that depress farm prices," says USDA economist John Lee. "We seem to be heading into a period where the balance between food supplies and demand will be more consistently tight than in the past."

"Gone is the ever-pervasive burden of chronically excessive supplies that depress farm prices."

Of course, this doesn't mean shortages on foodstore shelves. Nor does it rule out years of surplus production and crop diversions. But it may indicate a different emphasis for future food and agricultural policy.

"The evidence suggests that, rather than being faced with chronic overproduction and surpluses, we will more frequently confront the need to encourage production," says J. B. Penn, deputy administrator for economics of USDA's Economics and Statistics Service.

Assessing the Costs

According to the analysts, American agriculture has vast, untapped capacity to meet continued growth in world demand. However, they add that most of the easy production gains have already been attained.

"Future increases will come more dearly," Lee says. The reasons are many:

- It will cost more for agriculture to bid additional land and other resources from competing sectors of the economy.
- Production input costs are rising rapidly, adding to the expense of increasing yields through greater use of fertilizer and other inputs.
- Potential yield gains from current technologies have already been widely attained, so further gains will be increasingly expensive—as will new technologies.
- The costs of producing are higher and yields lower on less fertile, fragile land that will have to be brought into farming.

There are also costs in terms of protecting our resource base. Greater production means the potential for more chemical pollution of rivers and streams and increased soil erosion, particularly as marginal lands are converted into agricultural use.

Along with costs, however, there are also significant potential benefits for farmers. Without the incentives of higher farm prices and incomes, farmers are unlikely to pay the rising costs and assume the risks of adopting new technologies and investing in capital improvements. A tighter world supply-demand balance should help provide these incentives.

Pressures on Capacity

A glance at USDA projections for the next several years shows why economists see the need to focus attention on U.S. agriculture's production capacity.

Annual increases in world food production over the next several years may slow to about three-fourths of the historical rate as more marginal lands are farmed and rising energy costs discourage full use of inputs for maximum yields.

At the same time, world demand is expected to continue rising. The result: Growth in total demand for U. S. food production may exceed the average annual increases of 2.2 percent since World War II (see story on page 6). Demand growth could be even greater if

new outlets for farm products, such as gasohol production, develop rapidly.

This is a far cry from 1972 when, in an effort to reduce excess output, 62 million acres of farmland were idled—nearly a fifth of all U.S. cropland.

Today, with practically all readily available cropland in production, the questions are how much additional land will be needed to meet rising export demand and what prices will be needed to draw that land into production (see story on page 12).

Policies for the Future

A big step toward devising new policy approaches for the future, according to economist Penn, is to recognize the diverse structure of modern agriculture compared with a half-century ago. Then, almost 7 million farms, with an average size of less than 200 acres, produced a variety of products and faced common needs.

America has vast, untapped capacity to meet continued growth in world demand, but future production gains may come more dearly.

Today's 2.4 million farms, with an average size of around 429 acres, are far more specialized, and needs vary greatly according to region, nature of production, size of operation, and other individual factors.

These changes have important implications for farm policy. For example, farms with annual sales of $40,000 and above now account for more than three-fourths of U.S. agricultural output, and their share of total output is likely to increase in the years ahead. Therefore, the decisions made by the operators of these farms will largely determine the effectiveness of government policies relating to commercial agricultural production.

Since families operating these farms depend mostly on farm income rather than outside earnings for their livelihood, large year-to-year swings in farm income leave them particularly vulnerable, especially with the high debt load that most larger farms carry today to cover rising cash production expenses and capital investments.

To aggravate the problem, growing dependence on foreign markets may mean far greater year-to-year commodity price swings according to world food conditions.

Thus, Penn suggests, larger farm operators—especially those carrying high debt loads—will likely be most concerned with protecting themselves against price instability. Consumers, too, have an interest in being protected from large year-to-year food price swings.

End of "The Farm Problem"?

U.S. agriculture is in transition after 60 years of chronic oversupply and depressed prices.

Until recent years, U.S. farmers produced far too much for the marketplace. In effect, they were too productive for their own good as new technology and better farming methods enabled fewer and fewer farmers to more than keep pace with America's food and fiber needs.

In the early 1970's, the government held huge stocks of surplus grain, program costs were high, and millions of cropland acres were idled.

Meanwhile, however, a much closer worldwide balance between food supplies and the demand for U.S. output was gradually evolving. Rapid growth in foreign populations, efforts to improve diets, and rising incomes abroad were partly responsible. So was the shift of many centrally planned countries from net exporters to net importers.

Equally important was the slowing in the growth rate of U.S. output. Crop yields were not increasing as fast as in the 1960's.

Then, several unique events converged to cause an important shift in the supply-demand picture:

- Foreign exchange rates were adjusted to lower the value of the U.S. dollar in 1971, making American goods cheaper for foreign customers.
- Adverse weather brought poor harvests in many countries, and some—such as the USSR—changed their policies to increase agricultural imports.
- The USSR's sudden entry into the U.S. grain market in 1972 initiated a brief period of unparalleled prosperity for many crop farmers as exports pushed crop prices to record highs while farmers' production costs lagged considerably behind.

After a half-century of chronic oversupply, these and other forces helped shift the focus to U.S. productive capacity and the costs and opportunities associated with continued growth in foreign demand.

Growing World Markets Absorb Excess U.S. Farm Output

The world's growing appetite and its increasing dependence on American farmers will probably match any expansion in U.S. agricultural output during the next two decades, says USDA trade analyst Patrick O'Brien.

Foreign dependence on the U.S. has been rising since the end of World War II, but dramatic yield gains and increased acreage allowed U.S. crop production to more than keep pace. In fact, U.S. agricultural capacity far exceeded food demand for most of that period.

However, in the early 1970's, this trend began to reverse itself. Rising world demand for grain forced the U.S. to commit most of its once-excess resources to meet world needs. Foreign demand for U.S. agricultural products grew almost 9 percent per year, while U.S. agricultural output increased 2.8 percent per year.

From 1970 to 1980, U.S. agricultural exports rose from 62 million metric tons to 164 million tons. At the same time, the demands on U.S. cropland increased dramatically.

According to O'Brien, by the end of the 1960's foreign demand required the production of about 1 U.S. acre out of every 5 planted, or 14 percent of total marketings. By the end of the 1970's, exports accounted for 1 out of every 3.5 acres planted, or 30 percent of total marketings.

As a result, between the markets at home and abroad, there was a buyer for nearly every kernel of grain produced.

O'Brien concludes that world demand for U.S. farm products and its impact on U.S. agriculture over the next few decades "will be far more similar to the turbulent middle and late 1970's than to the previous 25 years."

More People to Feed

The ability of the U.S. to keep up with the world's growing appetite is being challenged by the rapid increase in population.

"Foreign population has increased 75 percent in the last three decades. This unprecedented growth in the sheer number of people to be fed has generated two-thirds of the increase in world demand over the same period," O'Brien says.

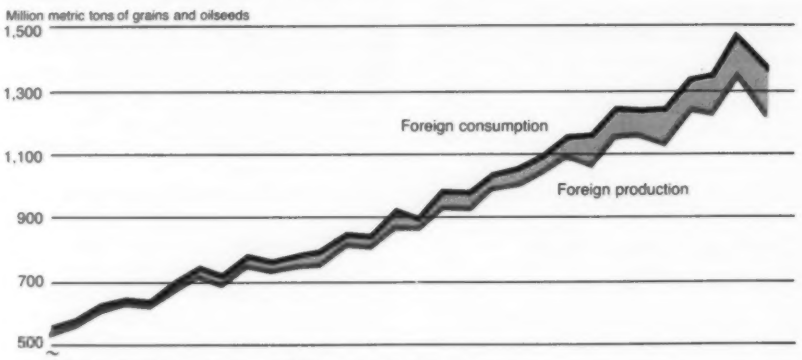
Although the rate of growth is expected to slow during the 1980's, world population is still expected to increase more than 50 percent in the next 20 years—from 4.2 billion in 1980 to nearly 6.5 billion by the year 2000.

Additionally, there is the rising demand in both developed and developing countries for improved diets, with more meat, eggs, and milk.

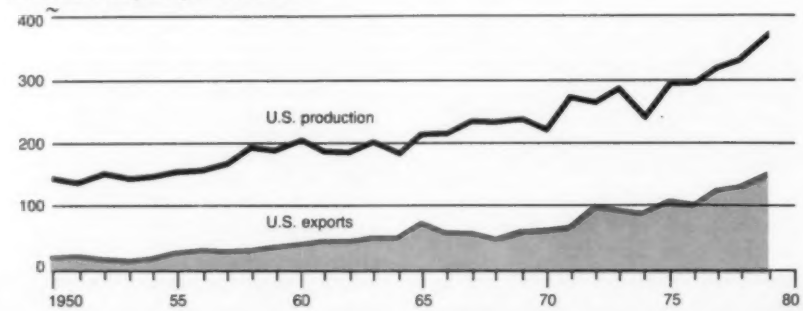
Exports now account for 1 out of every 3.5 acres planted.

"If U.S. agricultural production expands fast enough to meet the anticipated growth in export demand, our agricultural sector will have to run closer to capacity than at any other time," O'Brien says. "Significantly more of our agricultural and nonagricultural resources will have to be used—and

The Widening Gap Between Foreign Consumption and Production of Grains and Oilseeds . . .



. . . Is Filled by U.S. Exports, Which Are Testing America's Capacity to Produce



used more intensively—to produce food."

Within Our Capacity

O'Brien estimates that the demand for U.S. grains and oilseeds could increase from the 370 million tons per year at the end of the 1970's to nearly 440 million tons by 1985.

This projection takes into account the known potential for increasing production abroad. In short, most other countries of the world face problems in expanding production similar to those in the U.S. These problems include rising energy and input prices, limited availability of additional prime land, constraints on further expansion of irrigation, and limited funds to meet rising capital investment costs.

For these and other reasons, current indications suggest that consumption needs in the rest of the world will grow faster than foreign production. The resulting gap will have to be filled by imports from the U.S. and a handful of other exporting nations.

Meeting this growth in demand may call for an annual rate of increase in U.S. grain and oilseed production of roughly 3 percent, O'Brien says. This would be equal to the annual rate of increase achieved in the late 1970's.

But, have we exhausted our capacity to increase agricultural production at this rate?

Unlike many observers who conclude that we have, O'Brien says, "The combined acreage and productivity gains needed to expand output 3 percent per year by the late 1980's are certainly within our physical capacity."

He cites a Soil Conservation Service study which found 413 million acres of U.S. cropland, of which only 360 million acres are currently being used to grow crops. In addition, another 127 million acres of U.S. soil are classified as potential cropland.

"The combined acreage and productivity gains needed . . . are certainly within our physical capacity."

In light of the figures, O'Brien says that if all goes well, "We may have physical capacity well in excess of anticipated demand through the end of the century."

Higher Farm Prices

In order for farm production to keep up with demand, monetary incentives for growers must keep pace with the increasing costs of production—energy, fertilizer, and labor.

After adjusting for inflation, "real prices" received by U.S. growers would have to increase nearly 1 to 3 percent per year, compared with "real price" declines averaging 1 to 2 percent a year over the last 30 years. This will be imperative if farmers are expected to increase production, O'Brien says.

Also, our marketing and transportation facilities will need extensive improvements to handle larger volumes of crops. "By the mid-1980's, the volume of products moving through the marketing system could reach as high as 775 million tons, compared with an average of 560 million tons in the 1970's, and 450 million tons in the 1960's," O'Brien explains.

While growing export demand will bolster U.S. farm incomes, consumers could face increases in food prices unless higher farm commodity prices can be offset by increased productivity in food processing and marketing.

Farm Financial Picture to Improve in 1980's

What are the financial prospects for the farm sector over the next 10 years?

With agriculture's future tied so closely to other domestic and foreign developments, there aren't any sure answers. But even while admitting that uncertainties abound, many economists see the 1980's as a growth decade.

Although growth may start slowly and may not touch all segments of farming, the overall picture is one of increased strength and profitability for U.S. agriculture, say Dean Hughes and Stephen Gabriel, two finance analysts of USDA's Economics and Statistics Service.

Behind that outlook are expectations that rising foreign demand will provide steadily expanding export markets. At the same time, a sustained recovery in the U.S. economy could touch off renewed growth in consumer incomes—spurring demand for red meats.

The analysts also project that the annual rate of inflation will turn down from recent high levels and may slow even further as 1990 approaches. That's a dramatic reversal from the steady acceleration in the inflation rate since 1950, and it has major implications for the farm sector.

The alternative—continued acceleration in the inflation rate—could fuel unparalleled increases in farm production costs. That would probably force major adjustments in the way U.S. farming is organized and would almost certainly lead to greater government involvement in agriculture.

A Slow Starter

Even with an improving economy, Hughes and Gabriel expect relatively slow growth in net farm income until the mid-1980's. This year should be an exception, but the increase will probably look impressive only in comparison with last year's drought-reduced income.

After 1981, the projections indicate that gradual—but steady—gains in the farm sector's gross income will be largely offset by rising production expenses, which will generally keep pace with the inflation rate throughout the economy.

Thus, net farm income may grow at an average annual rate of only 4-5 percent between 1982 and 1985. If the analysts' projections turn out to be accurate, the inflation rate will be somewhat higher than this, so farmers will still be losing ground in purchasing power.

However, in the second half of the decade, net farm income could start to grow rapidly with mounting export demand, a slowing inflation rate, and higher consumer incomes.

In fact, Hughes and Gabriel foresee net farm income growing at about double the average annual rate of the early 1980's. The acceleration in farm income, while inflation continues to moderate, would give farmers substantial gains in purchasing power. Farm income could actually be rising faster than income in the nonfarm sector.

For the decade as a whole, farm production expenses could increase by an additional $240 billion above 1980's estimated $132 billion. However, gross farm income is expected to increase even more.

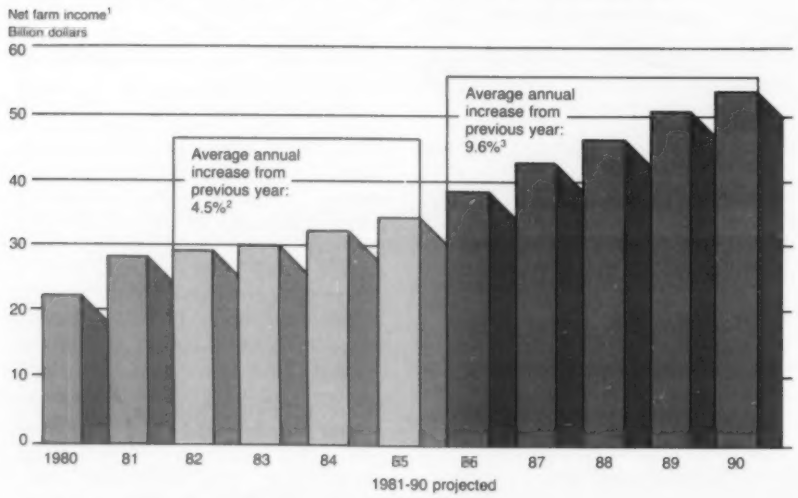
The result: Net farm income may more than double by 1990. Even after adjusting dollar figures for the projected inflation rate, farmers' purchasing power would increase by a tenth over the 10-year period.

What About Assets and Debts?

Net income isn't the only measure of farmers' financial status. Assets, debts, and the relationship between the two are as important as current income to agriculture's financial well-being.

While it took two centuries for U.S. agriculture to accumulate 1980's $1 trillion ($1,000 billion) in assets, it may take only another decade to triple that figure.

Analysts Project Rapid Growth in Net Farm Income After Mid-Decade



[1]Includes government payments and net change in farm inventories.
[2]Projected year-to-year increases vary from 1%-7%, but average 4.5%.
[3]Projected year-to-year increases vary from 6%-12%, but average 9.6%.

Real estate values may grow at an average rate of about 14 percent a year through 1990, accounting for most of the increase in assets.

This will add to the wealth of landowners and make it more difficult for new farmers to get started. Also, higher land prices will greatly increase the need for borrowing to refinance the ownership of land as it is consolidated among fewer and fewer owners.

Partly for this reason, farm debt will continue to grow, perhaps passing the $600 billion mark by 1990—more than three times the level of December 31, 1980.

While farm debts as a percentage of assets may rise to near 20 percent in the mid-1980's, the ratio will probably drop closer to recent 17-18 percent levels as farm incomes accelerate in the latter part of the decade.

The strong competition for loan funds to meet the spiraling capital needs of agriculture will impose heavy demands on farm credit markets. But Hughes and Gabriel expect that the profitability and promising outlook of the farm sector will enable it to compete successfully with other sectors of the economy for the funds it needs.

In fact, a greater share of the financing will probably come from commercial money markets. Government's share of total farm debt, which grew from 6 percent 5 years ago to 14 percent today, may decline to about 9 percent by the end of this decade.

However, both analysts are quick to admit that many factors could alter their optimistic projections. For example, slow growth in exports or a sluggish domestic economy coupled with higher than expected inflation would continue to squeeze farm incomes.

Such conditions could lead to greater government involvement in agriculture. Why? Private lenders would probably limit their commitments to agriculture, while farm debt could build to as much as $1 trillion by 1990.

Financial Trouble Spots

The generally optimistic outlook for the farm sector is not without its trouble spots.

Financing problems may be particularly acute in the next few years when farm income growth may be sluggish and many farmers' debts are rising faster than assets.

Livestock producers are foremost among those with potential credit problems. Cattle feeders and hog and broiler producers are particularly vulnerable when production expenses are rising rapidly.

The specialized, production-intensive, low-liquidity nature of their assets limits their financial options—and their ability to cut costs by adjusting production—when times are tough. Their outlook depends greatly on the uncertainties of international markets and weather in determining feed costs.

Crop producers and cattle ranchers may be better able to finance difficult years because their operations are more land-intensive. With rising real estate values, lenders are more willing to refinance burdensome debts.

However, this may not be true for farmers already carrying large debt loads—especially beginning farmers. They may find it difficult to repay loans while interest rates remain relatively high and current returns low.

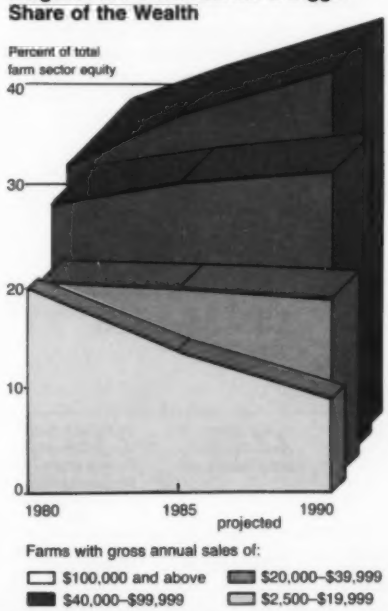
Many small farmers are in a similar situation. Debt will probably increase fastest for small poultry, tobacco, and cotton farms. The concentration of these farms in the southeast may make that region particularly vulnerable to income fluctuations.

However, new and small farmers with dependable outside income sources might find the next few years a good time to get started or expand—before accelerating returns attract additional competition and further spur land values.

As a group, the largest farms typically carry the highest debts in relation to assets, and some may face short-term cash flow problems. Nevertheless, they'll again be the big winners in the next decade.

Economists foresee substantial further concentration of wealth on established farms with large real estate holdings. Small farms may account for only about 10 percent of total farm sector equity by 1990, half their current share.

Largest Farms Will Garner a Bigger Share of the Wealth



1981 Crop Reporting Board Calendar

July–December

July

Monday	Tuesday	Wednesday	Thursday	Friday
		1 Poultry Slaughter • Dairy Products	2 Noncitrus Fruits & Nuts — Midyear Supplement	3 Holiday
6 Celery	7 Mink	8	9 Tall Fescue Seed (Southern States)	10 Crop Production
13 Vegetables	14	15	16 Egg Products	17 Milk Production
20 Cold Storage • Cattle on Feed • Catfish	21 Lamb Crop & Wool • Eggs, Chickens & Turkeys	22	23 Livestock Slaughter	24 Peanut Stocks & Processing • Sugar Market Statistics
27 Cattle	28	29	30 Com. Fertilizers	31 Agricultural Prices

August

Monday	Tuesday	Wednesda
3 Poultry Slaughter • Dairy Products	4 Field Seed Stocks • Celery	5
10	11	12 Crop Producti
17 Veg. Seed Stocks	18 Cranberries	19 Livestock Slaughte Catfish
24	25 Peanut Stocks & Processing • Sugar Market Statistics	26
31 Agricultural Prices • Com. Fertilizers		

October

Monday	Tuesday	Wednesday	Thursday	Friday
			1 Poultry Slaughter • Dairy Products	2 Cherry Utilization
5 Celery	6	7 Red Clover Seed	8 Egg Products • Vegetables	9 Crop Production
12 Holiday	13	14 Milk Production	15	16 Alfalfa Seed
19	20 Cattle on Feed • Cold Storage • Catfish	21 Eggs, Chickens & Turkeys	22 Grain Stocks • Rice Stocks	23 Livestock Slaughter • Peanut Stocks & Processing
26 Sugar Market Statistics	27	28 Egg Products	29 Com. Fertilizers	30 Agricultural Prices

Novemb

Monday	Tuesday	Wednesda
2 Poultry Slaughter • Dairy Products	3 Com. Fertilizers — Annual	4 Celery
9 Vegetables	10	11 Holiday
16 Sheep & Lambs on Feed	17	18
23 Farm Labor	24	25 Peanut Stocks & Processing • Su Market Statistics
30 Agricultural Prices • Com. Fertilizers		

To start receiving any of the reports listed, send your name, address, and zip code to: Crop Reporting Board, Room 0005-South, USDA, Washington, D.C. 20250. Ask for the report(s) by title.

Colored date indicates reports compiled and processed in lockup.

August

Wednesday	Thursday	Friday
5	6	7 Tall Fescue Seed (Oreg.) • Vegetables
12 Crop Production	13 Cattle on Feed • Egg Products • Mushrooms • Milk Production	14 Commercial Apples by Varieties
19 Livestock Slaughter • atfish	20 Rice Stocks • Cold Storage	21 Eggs, Chickens & Turkeys • Farm Labor • Timothy Seed
26	27	28

September

Monday	Tuesday	Wednesday	Thursday	Friday
	1 Poultry Slaughter • Dairy Products	2	3	4 Celery
7 Holiday	8	9 Vegetables	10	11 Crop Production • Egg Products
14 Milk Production	15 Cattle on Feed • Hop Stocks	16 Peanut Stocks & Processing — Seasonal Report	17	18 Cold Storage
21 Soybean Stocks • Hogs & Pigs • Catfish	22 Eggs, Chickens & Turkeys	23	24 Livestock Slaughter	25 Peanut Stocks & Processing • Sugar Market Statistics • Citrus Fruits
28 Potatoes & Sweetpotatoes	29 Com. Fertilizers	30 Agricultural Prices		

November

Wednesday	Thursday	Friday
Celery	5	6
1 Holiday	12 Crop Production	13 Cattle on Feed • Milk Production
8	19 Livestock Slaughter • Catfish	20 Cold Storage • Eggs, Chickens & Turkeys
5 Peanut Stocks & ocessing • Sugar rket Statistics	26 Holiday	27

December

Monday	Tuesday	Wednesday	Thursday	Friday
	1 Poultry Slaughter • Dairy Products	2	3 Egg Products	4 Com. Fertilizers by Class • Celery
7	8	9	10 Crop Production	11 Milk Production
14	15 Cattle on Feed • Potato Stocks	16	17	18 Cold Storage
21 Catfish • Eggs, Chickens & Turkeys • Vegetables — Preliminary	22 Small Grains • Hogs & Pigs	23 Livestock Slaughter • Peanut Stocks & Processing	24 Sugar Market Statistics	25 Holiday
28 Farm Numbers	29	30 Dairy Products • Com. Fertilizers	31 Agricultural Prices	

Farmers Face Squeeze on Available Cropland

U.S. farmers' unmatched productivity will be put to the test over the next 20 years, as they try to coax enough out of the nation's limited supply of cropland to meet sharply rising demand for their products.

According to one recent report, the National Agricultural Lands Study, urban encroachment and rural development have turned some of our most productive farmland into airports, shopping centers, industrial sites, housing developments, highways, and reservoirs.

The study estimates that nonfederal rural land was converted to nonagricultural uses at the rate of about 3 million acres a year between 1967 and 1975. Over two-thirds of the conversions were to urban use or to rural residential, commercial, industrial, and transportation uses. The remainder of the land was turned into reservoirs and lakes.

Of course, only a portion of the converted rural land was cropland. According to the Soil Conservation Service, about 672,000 acres of cropland were converted to urban uses annually in the 1967-75 period. Possibly an additional 200,000 acres of potential cropland were also converted.

Looking into the future, the lands study puts the projected loss of current and potential cropland at up to 20 million acres in the next two decades if present trends continue.

Such figures deserve attention. Although there are several hundred million acres of cropland in the U.S., we're drawing from a limited resource.

Also, most of the readily available land is already in production and any conversions reduce the base for further expansion.

Soil Conservation Service surveys indicated a cropland base of 413 million acres in 1977. An additional 127 million acres were estimated to have "high" or "medium" economic potential for crop use.

Urbanization Encroaches on Thousands of Cropland Acres—Coastal Areas Hardest Hit

Average annual cropland acres converted to urban and water uses (1967-75):

Regions where annual conversion rates equal:

More than ¼ of 1% of current cropland[1]

Between 1/10 of 1% and ¼ of 1% of current cropland

Less than 1/10 of 1% of current cropland

[1]Largest annual losses amounted to slightly less than ½ of 1% of current cropland in the Northeast and Southeast.

Market Forces

Mel Cotner, who directs the natural resource economics unit within USDA, agrees that farmland conversion may be cause for concern. He's convinced that American agriculture is capable of meeting the increased demand it will face by the turn of the century, but this assessment hinges on a number of factors, including steps taken to protect the nation's cropland base.

Market forces will also play a role in restraining the need for additional land, according to economist Robert Boxley. For example, the lands study calculates that most, if not all, of the nation's cropland base may have to be brought into cultivation to meet projected demand over the next 20 years.

However, Boxley points out that this conclusion assumes that growth in world food demand is unencumbered by major changes in present consumption habits, world production and trade patterns, and price relationships.

In all likelihood, an actual increase in cropland use of this magnitude could occur only if commodity prices were high enough to cover the production costs associated with bringing this much acreage of less productive land into cultivation. At such prices for U.S. commodities, world demand for U.S. production would probably be less than projected by the lands study.

Population Pressures

Population growth remains one of the most significant pressures. More people than ever are moving to rural areas,

With the uncertain prospects for improved yields, farmers may have to rely on increased acreage.

where the population grew faster than in cities in the 1970's. Suburban population is expected to grow by 62-75 percent by the year 2000, adding to the ongoing expansion of urban areas into surrounding counties.

As demands increase for housing, commercial development, recreational facilities, roads, and schools, the immediate result is loss of farmland.

Some farmers sell their land rather than trying to cope with the tensions arising from increasing numbers of nonfarm people living close to their farms. Also, ordinances may be passed that restrict some of their normal farming practices, and they may be discouraged by vandalism of their crops and machinery, lawsuits over crop dusting, and declining political power locally.

The new residents' demands for improved services and facilities may also mean higher property taxes, and it is often the original residents—with their larger landholdings—who end up bearing most of the burden.

Economic growth is drawing people to rural areas. Jobs in virtually every industry grew at a faster rate in nonmetropolitan areas than in urban areas in the 1970's. This leads to more industrial construction and, frequently, farmland conversion. However, it also provides increased opportunities to farm families who depend on off-farm jobs.

Some researchers hold that the "impermanence syndrome" can speed the abandonment of farmland. According to this concept, farmers look at what is happening around them and conclude, rightly or wrongly, that agriculture can't last much longer in their area.

They may stop making capital investments or adopting conservation measures that require years of farming to pay off.

Other analysts, though, insist that this practice doesn't necessarily lead to the actual conversion of farmland. In many cases, abandoned farmland is eventually brought back into cultivation by new farmers.

According to the lands study, the government contributes, sometimes inadvertently, to the conversion of farmland. The report noted a number of federal programs with the primary purpose of encouraging or aiding rural development, which may consequently result in the conversion of farmland to other purposes.

The Productivity Problem

All this pressure on farmland wouldn't be so bad if annual farm productivity weren't also growing at a slower rate.

(Continued on next page.)

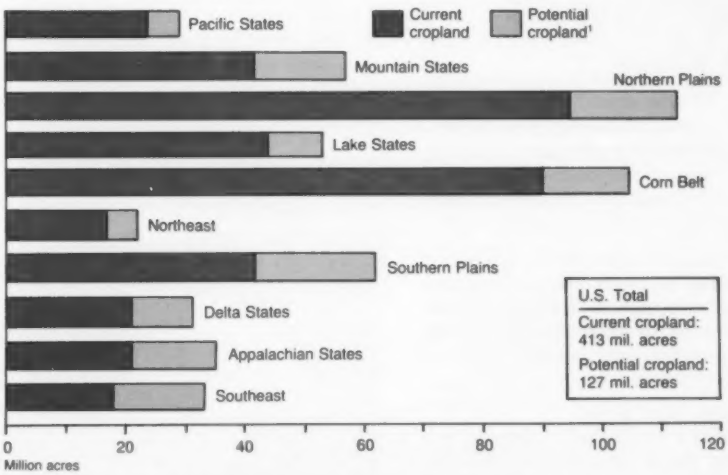
Wind and Water Also Rob Farmland

Even if farmland is effectively protected from excessive conversion to nonfarm uses, nature will still pose a formidable challenge. A current USDA appraisal of soil and water conservation needs places soil erosion at or near the top of priority problems.

On about a third of the nation's cropland, the soil is being eroded faster than nature can replace it. If allowed to continue unchecked, erosion will eventually lower crop yields and increase the need for fertilizer.

According to analysts, the effects of erosion on most soils are felt only gradually and over long periods. Existing data and analytical techniques are inadequate for projecting long-term productivity effects of erosion.

. . . But Millions of Potential Acres Are Still Available for Expanding Crop Production



¹Land with "high" or "medium" potential for conversion to cropland, Soil Conservation Service, 1977.

In the 1960's, U.S. production increased enough to meet rising demand, even with a drop in the acreage planted, because the crop yield per acre increased by about 1.6 percent annually.

But in the 1970's the growth rate dropped, and three-fourths of the production increase had to come from increased acreage. From 1969 to 1980, acreage planted jumped from 299 million acres to 360 million acres, an increase of 20 percent.

Without a major technological breakthrough, the future crop yield growth rate could be as low or lower than that of the 1970's, according to the lands study.

One possible explanation for this drop in yield growth is that the land brought into cultivation in the 1970's was less productive. Also, the sharply rising cost of farm production inputs—especially energy-based inputs—encouraged some farmers to reduce their use or to substitute additional land for purchased inputs.

As rising natural gas costs make irrigation pumps more expensive to operate, some land could be taken out of irrigated agriculture. At the same time, salinization of some western soils, caused in part by overirrigation, has reduced soil fertility.

While irrigation costs are rising, the available groundwater supplies are falling in many areas of the country, making it still more difficult to sustain the past output increases from irrigated agriculture.

These limitations also affect the amount of potential cropland that can be converted to crop use, while overgrazing of rangeland would lower its potential as cropland by increasing erosion.

How Much, How Soon?

Because of the uncertain prospects for improved yields, farmers may have to rely on increased acreage to meet demand in the next 20 years. But there is some uncertainty as to how rapidly or easily potential cropland can actually be converted to crop use.

Higher per-unit crop production costs will likely result, as potential cropland is generally poorer land, less stable in terms of crop yield. Longer-term problems may also come with use of potential cropland. It is generally more susceptible to soil erosion and environmental problems from pesticide and fertilizer runoff.

The problems stemming from the loss of cropland point to the wisdom of more carefully balancing farmland conversion decisions as one way to hold down production and food costs in the future. Mel Cotner also identifies other important issues:

- Meeting demand without long-term damage to our agricultural land base.
- Allocating agricultural research to assure future productivity growth.
- Emphasizing land-conserving techniques in farm management and conservation assistance programs.

Protecting the Land

How much is being done to slow the disappearance of cropland?

According to the lands study, the "land ethic" preached by resource conservationists seems to be taking hold among at least some communities concerned about the loss of farmland in their areas. A key factor for success appears to be farmland preservation programs that are tied in with a community's comprehensive growth management plan.

Zoning is one of the most popular approaches to the problem. This is normally done at the local rather than the state level. In the last decade, 104 counties and 166 municipalities have gone this route, although, until recently, many zoning programs weren't stringent enough to effectively protect farmland, allowing small minimum lot sizes and open-ended lists of nonfarm uses.

New zoning ordinances have greatly decreased the allowed residential densities in agricultural areas or increased the minimum lot size. Rezonings are granted only to those lands no longer suited to agricultural use.

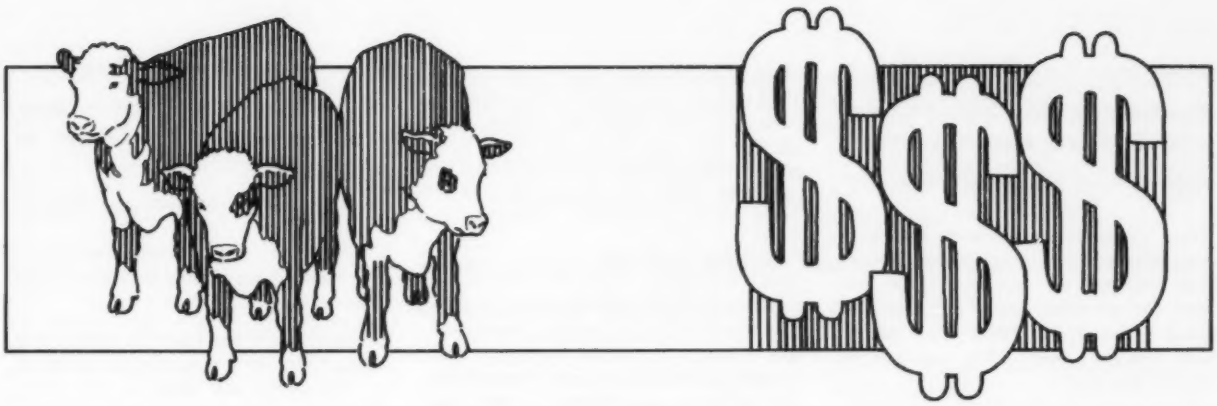
"Sliding scale" zoning is a recent experiment where the number of dwelling units permitted is based on the size of the parcel of land, with density per acre decreasing as the parcel size increases. For instance, a developer may be allowed to build four units on a 100-acre parcel, but only 10 units on a 500-acre parcel.

The purchase of development rights from farmers is another approach being tried in a few local programs. The community pays the farmer the difference between the value of the land for agriculture and its value as development property, thus compensating the farmer and keeping the land in agriculture. These programs, though, tend to be costly.

State governments have also taken action. In Illinois, the Agricultural Areas Act works in conjunction with county zoning laws to protect farmland. Agricultural districting designates legally-recognized areas for long-term agricultural use. In some cases, these areas are suggested by local farmers and approved at the state level.

Tax breaks for farmers have been widely used, although this approach hasn't been as effective as planners had hoped. Some states require farmland to be taxed at its agricultural value rather than its real estate value. Others reduce taxes for farmers who agree not to sell their land for nonagricultural uses.

Evening Out the Cattle Cycle



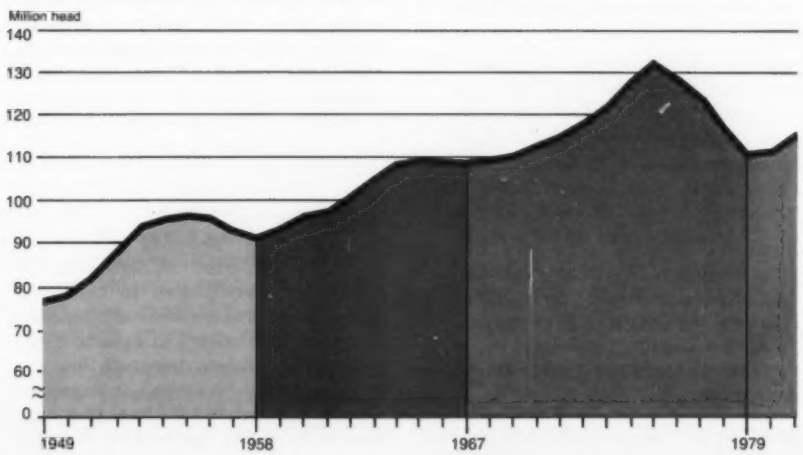
"The cattle cycle is an economic disease. We spend millions on animal diseases. How much do we spend on the real income killer, the cattle cycle? . . . We view the cattle cycle like death and taxes as inevitable. I deny this. Cycles are predictable and their causes well known . . . Through research and education they could essentially be eradicated."

Willard Williams, professor of agricultural economics at Texas Tech, made this statement in 1975, but he could—and would—say it again today.

In the past, cattle cycles have caused tremendous fluctuations in beef supplies, prices, and the value of cattle inventories. In fact, during the last decade, some producers saw the value of their herds cut almost in half when the cycle turned from expansion to the sharpest liquidation in history.

The cattle industry is now in a rebuilding phase of the eighth cycle since someone started counting back in 1896. So, the question for the eighties is: Must the traditional pattern of overoptimism, overexpansion, and huge producer losses repeat itself in this decade?

Herd Rebuilding Signals the Start of a New Cattle Cycle



Economists such as Williams and USDA's Richard Crom contend cattle cycles can be better controlled. According to Crom, producers themselves, armed with accurate market information and knowledge of how to react to industry trends, could help flatten out the peaks and valleys of production cycles.

"This is a real possibility now," says Crom, "because producers are more management-oriented and production units are larger."

Management followup is the key because information alone is just not enough. One industry expert cites the early seventies as a prime example of this. High prices and reduced slaughter, as more cattle were held for herd expansion, led many producers to ignore the basic data on total cow numbers. Even many cautious producers kept expanding. Ultimately, they suffered huge losses because record cattle and cow numbers, coupled with drought-reduced forage supplies, finally forced a record liquidation.

How the Cycle Works

There's no simple explanation of how the cattle cycle begins, but let's say it starts with the expansion phase. Heifers that normally would have been marketed are held back by producers and added to breeding herds. Additional cattle are put on feed.

Producers must have a good grazing year to continue expansion.

Thus, slaughter is reduced, and beef supplies become more limited. Prices then increase for slaughter cattle and also for breeding stock and feeders. Each increase stimulates more expansion. Retail prices climb because of limited supplies.

Finally, cattle numbers become so large that increased slaughter is unavoidable. Prices fall. If producers panic and rush to sell, the market is glutted with beef and prices drop severely.

Eventually, marketings decline and prices improve for cattlemen. Then, the expansion phase of the cycle takes over again.

One key factor in the cycle is beef biology. Quick reactions to market signals are impossible because so much time is involved in the reproduction of cattle. So, biology alone is a big factor in the length of the cycles, which have run about 10 years each during the past three decades.

For cattle producers, the time it takes for a calf to reach market weight and the market prices received are important considerations in management. "But if these internal factors were the only ones affecting cattle numbers, the degree of income adjustment for producers would be relatively minor," says Crom.

"It's the outside forces—inflation, weather, exports, consumer spending, and feed prices—that can lead to major herd liquidation and trouble."

"Back in the seventies, just about everything went wrong," says Crom. "The unprecedented rate of inflation during the early part of the decade had a dramatic effect on input prices. Grain and energy costs more than doubled. Increased foreign demand for feed grains tightened domestic supplies.

"And on top of that, a severe drought in 1975 put more of a crunch on feed supplies and prices. Producers had expanded the U.S. cow and cattle herd to a record 132 million head by then, and the only way to go was to slaughter."

Rebuilding Underway

Cattle numbers remained about even throughout 1979, after declining 16 percent from 1975's record high. Expansion was encouraged in the spring of 1979, however, by excellent grazing conditions and record prices. By Jan. 1, 1981, the U.S. inventory had increased about 4 percent to 115 million head, because more heifers had calved during the preceding year.

However, current record interest rates, poor returns, and the severe drought in 1980 have likely slowed expansion in 1981. The inventory on January 1, 1982 is expected to show an increase of only about 3 percent. Nevertheless, weather conditions and, consequently, forage supplies this year will greatly affect the new figures. Producers must have a good grazing year and replenish depleted forage stocks to continue expansion.

Slowing Herd Expansion

Events of 1981 may alter the expansion path of the current cycle to some extent.

High grain prices coupled with weak consumer demand for meat and large supplies of pork have held fed cattle prices below breakeven levels. The subsequent lack of demand for feeder cattle, plus some drought-forced liquidation, has increased the supply of nonfed beef on the market.

All of these factors probably will slow herd expansion in 1981 and 1982. However, the composition of the cattle herd is such that an actual turndown in cattle numbers is almost impossible.

Since the beef industry isn't rushing to overexpand, profits could again be in the picture.

Originally, some economists had figured on a strong early rebuilding phase in the current cycle. But high interest rates, lower returns (in the face of ample supplies of other meats), and the drought curbed that rebuilding, and the industry now sees beef production turning up slowly from 1979's low point.

For producers, this slow growth could be good news. Since the beef industry isn't rushing to overexpand, profits could again be in the picture.

USDA economists currently expect the expansion phase to peak sometime after 1985, perhaps as late as 1987. At the peak, the top cattle numbers are projected at 124 million head, with cow numbers approaching 55 million—well below 1975's record — including about 10 million dairy cows.

When liquidation begins, its extent and depth will depend on the combination of internal influences such as market prices, and outside influences such as inflation, supplies of competing meats, weather, and exports. Unless the outside pressures all push in the same direction, projections indicate a modest liquidation over a 2-year period, probably in 1987 and 1988.

An Industry Ideal

Fluctuations in supplies and prices could be reduced considerably if production were geared to consumer demand. But, this achievement depends on obtaining answers to several questions. What is future demand? How can cattle inventory be limited or increased to meet the demand for beef plus supplies of competing meats? Even if supply

is matched to demand, can such a production level be maintained over time?

Answers to these questions are just what industry and USDA economists are working toward.

Imagine a situation where production meets consumer demand at a price that gives producers a "break-even" return. Economists call this a "steady-state meat sector," one based on estimates of per capita demand for beef and other meats.

To maintain a "steady-state," a 1980 per capita beef consumption of 81 pounds retail weight and an inventory of 37.6 million head of beef cows would have been necessary on Jan. 1 last year. But, according to Crom, we actually consumed only about 78.3 pounds of beef per person, and the Jan. 1 inventory of beef cows was 37.0 million head.

The discrepancy between 1980 steady-state consumption and actual 1980 consumption shows how difficult controlling the cattle cycle is. In 1980, slaughter was reduced because the inventory was lower and producers were holding more heifers for herd expansion.

But consider the difficulty of predicting consumer demand in 1990. Currently, for 1990, per capita demand for beef is estimated to increase to 89 pounds. A beef cow herd of about 47.4 million head would be required to meet that demand, given the expected increase in population based on historical slaughter weights, calving rates, etc.

Working toward a steady-state goal isn't simple or automatically successful. But, according to Crom, balancing inventory growth with demand early in the cycle should lessen the degree of adjustment in cattle numbers a few years later. To achieve this, producers need to act together with an eye on the future.

The best hope for managing production cycles is to start with a well-planned program of information and long-term outlook conducted jointly by industry associations, the land-grant universities, and USDA, Crom says.

Given the 3 to 4 year lag between the time expansion plans are made and the time production actually increases, cattle producers must be well informed on the rate of breeding herd retention.

Then the boom-and-bust cycle might be reduced and producers could escape the costly swings that have affected them for almost a century.

A Matter of Biology

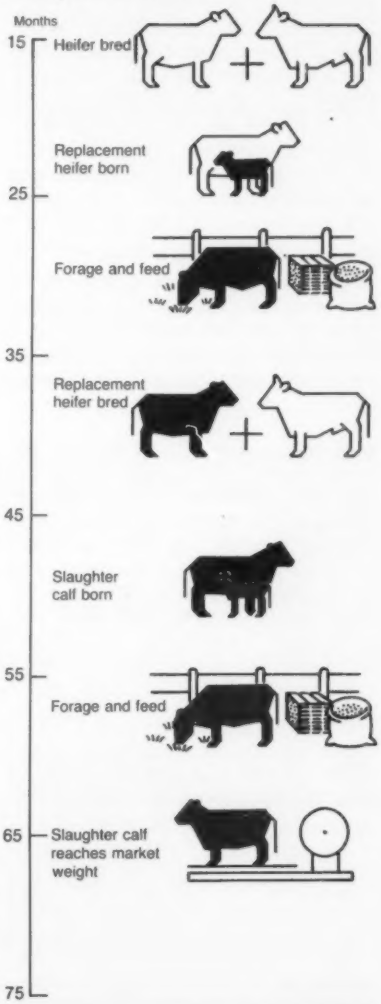
One dependable characteristic of the cattle cycle is the biologic time lag in the production process.

Heifers are not bred for their first calf until they are 14 to 18 months old. Then, the gestation period is 9 months. The calf, in turn, won't reach mature slaughter weight for another 17 to 19 months, depending on the individual calf's rate of gain and the feeding program.

Consequently, it takes up to 4 years from the time a cattle producer's heifer is born until her offspring reaches slaughter weight. If this offspring is retained to expand the herd rather than sent to slaughter, it could be about 5½ years from the time the first calf is retained in the herd until an offspring reaches slaughter.

Because of the time lag, beef production continues to increase well beyond the time price signals change. This happened in the 1974-76 period. Beef production kept increasing despite the lower cattle prices and the large financial losses to cattle producers.

Expansion Plans Are Subject to Biological Timetable



The Changing U.S. Farmscape: Fewer-but-Larger Farms

If present trends continue, nearly one out of every three of today's farms may not be around by the turn of the century.

The prime culprit won't be urban sprawl. Most of the decline in the number of farms will come as larger units absorb smaller ones, resulting in an increasing concentration of farmland and farm production among the biggest operations.

Of course, these projections are by no means inevitable, as USDA economist George Coffman points out. Farm policies, the economy, energy costs, technology, foreign market developments, and other, perhaps unanticipated, factors will all influence the future of U.S. agriculture.

Changing Proportions

From 1935's peak of close to 7 million, U.S. farm numbers have now dropped below 2-1/2 million. If the steady decline continues, another half to three-quarter million units may disappear by the year 2000.

By then, the proportion of farms in the small, medium, and large classes will have changed substantially. Small farms (those with gross annual sales of less than $20,000) will no longer dominate the farm count as they do today. The projections indicate that they'll have slipped from about two-thirds of all U.S. farms to only about half.

Many will shift out of the small farm class only because of commodity price rises that boost their sales above $20,000. Others will expand. But many small operations will be sold or rented to larger farms as their owners retire or move into other occupations.

The squeeze may be even greater on medium-size farms ($20,000 to $99,999 in gross annual sales). About half of these farms may either expand into—or be absorbed by—large farms during the next 20 years. If this happens, midsize units may account for only about 20 percent of total farm numbers, down from around 30 percent now.

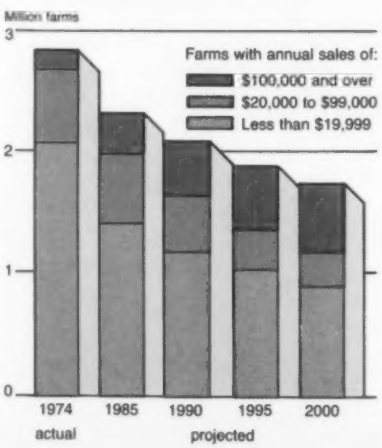
In 20 years, the largest 1 percent of U.S. farms may account for half the nation's output.

"Many medium-size farms seem to be too large for part-time farming and too small for efficient full-time farming," Coffman says. In the future, they may also fail to serve as a transition to large farms. "Such farms often are unable to generate the revenue necessary for growth," according to Coffman.

On the other hand, the number of large farms (gross annual sales of $100,000 or more) will grow sharply. There may be about four times as many by the turn of the century, and they'll have climbed to about one out of every three farms from fewer than one out of ten today.

Many will incorporate to take advantage of income and inheritance tax laws, but the vast majority of farms—large and small—will still be family enterprises.

Large Farms Will Multiply as Total Farm Numbers Decline



Concentration of Output

While much of the move to larger operations will reflect farmers' expansion decisions, price inflation will also play a role in pushing farms into larger sales classes. Coffman's projections assume an average annual increase in farm prices of 7.5 percent—about equal to the average rate of the 1970's.

Under these conditions, about a third of the buildup in larger farms will reflect nothing more than changes in farm prices. A higher price inflation rate would shift more farms into the largest sales classes, while a lower rate would slow the trend.

In either case, U.S. agricultural production will become increasingly concentrated among fewer and larger farms. Recent figures show that the largest 1 percent of the farms produce about a fourth of the nation's food. In 20 years, they'll account for half of total U.S. output, while the smallest 50 percent of our farms will produce less than 1 percent of America's crops and livestock.

By then, farms with annual sales of $100,000 or more will produce virtually all the food going into commercial marketing channels.

The diminished role of small farms will partly reflect their size. Small farms of the year 2000 will be very small according to projections that the largest million farms will operate almost all of the nation's farmland. Three-fourths of the farmland will be in the hands of the top 200,000 operators.

Total farm wealth will show a similar pattern of concentration. Equity capital (farmers' ownership share of their total assets) was distributed evenly among farm sales classes in 1978—the small, medium, and large classes each accounted for about a third of total U.S. farm equity. In 20 years, however, two-thirds of the total wealth of the farm sector will be in farms with sales of $100,000 or more.

Declining Opportunities

Partly for these reasons, it will become even more difficult for new farmers to get started. They may need about $2 million in assets for a farm to generate sales of more than $100,000, double the estimated requirement of 1978.

Of course, capital requirements for small farms will be much lower, and a large percentage of operators are now at the age where they'll be retiring sometime in the next few decades.

However, even when smaller, less expensive tracts of farmland are available for sale or rental, many aspiring young farmers will face intense competition from established farmers expanding their operations. There may also be sales competition from nonfarm investors seeking to develop the land or rent it to a "proven" operator. Those who do manage to enter farming on a small scale will be heavily dependent on off-farm income. "Very few will succeed in making the transition to full-time farming," Coffman says. Most small farms won't generate enough income to support a family, let alone enough for expansion.

Also, as many of these units are bought up to expand existing farms, there will be fewer farms around for the future, particularly at the sizes a young person may be able to afford.

In fact, for every three operators who leave farms with sales of less than $100,000, only one will begin. The total number of new farmers under age 35 may shrink from about 377,000 just a few years ago to 233,000 by the end of the century.

Of course, the number of large farms will be expanding, but that won't open many doors for new entrants because the capital requirements will usually be far beyond their reach. Opportunities will be confined mostly to those who inherit a farm, and—more often than in the past—

Three-fourths of the farmland will be in the hands of the top 200,000 operators.

they'll be inheriting not an entire farm but partnerships or shares in a family farm corporation that's highly specialized.

Greater Specialization

Specialization dramatically altered the face of U.S. agriculture in recent decades, and its effects will grow more pronounced in the future. This is partly related to increasingly specialized machinery and equipment and partly to the efficiencies producers obtain by devoting their attention and energy to one product, Coffman says.

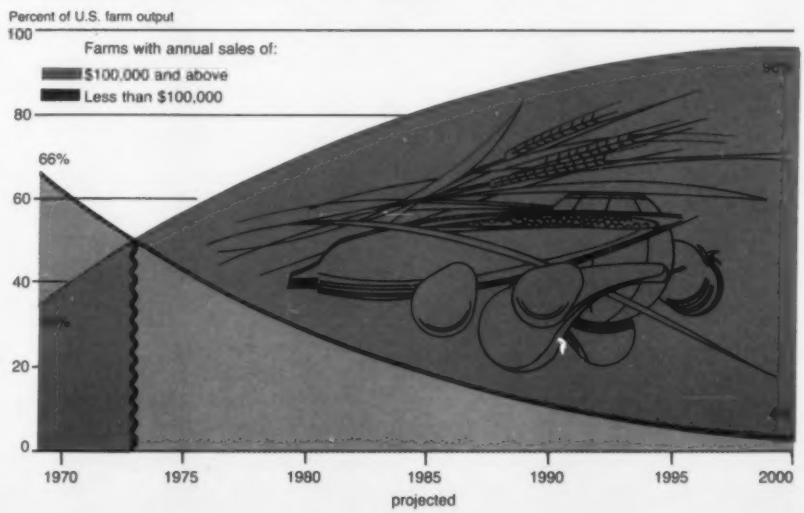
Most large producers will be unwilling to forego the advantages of further specialization because pressures to expand will be greater than ever and opportunities more limited. Thus, competition at the top will intensify as control of U.S. farmland is concentrated among fewer and fewer operations.

New capital-intensive farming technologies will encourage both the trend to larger farms and the move to greater specialization. Larger farms will benefit more from labor-saving technology because they have more to gain and because of quicker adoption. Both specialization and technological progress will increase the competitive edge larger farms have over smaller ones.

All these factors will work to further isolate small farms from the mainstream of the food and fiber system. Most will be "hobby" farms in the sense that they'll be operated more to maintain a certain lifestyle or to reduce family food costs than to build into a viable business that will cover living expenses.

They'll still constitute about half of U.S. farms. But their reduced numbers and diminished importance in the food production picture will wean rural economies even more from a dependence on agriculture.

In 20 Years, Large Farms May Produce Virtually All the Nation's Food



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